John Thomas Financial
14 Wall Street, 5th Floor
New York, New York 10005
wskaufman@johnthomasbd.com
www.kaufmanreport.com

The Kaufman Report

Trade what you see, not what you think.

Wayne S. Kaufman, CMT
Chief Market Analyst
(800) 257-1537 Toll Free
(212) 299-7838 Direct

Friday November 21, 2008 **Closing prices of November 20, 2008**

We said on October 10th that the breaking of certain price levels at that time "greatly increased the possibility of a 100% retracement of the entire bull market of 2002 – 2007." That amazing move was accomplished Thursday as the S&P 1500 plunged over 6% for the second session in a row, breaking the 2002 lows and reaching levels last seen in May 1997. All ten S&P sectors were down at least 3.59%, led by Energy and Financials, down 11.16% and 10.52%, respectively.

We have warned repeatedly that markets that do not respond to oversold conditions are dangerous, and that the last stages of waterfall declines can be very painful. Many trusted indicators have been rendered useless in this historic bear market, and many analysts calling the bottom have been humbled. The problem is that in spite of extreme, sometimes historic oversold conditions and indicators, and many measures of valuation having reached extreme levels, buyers are staying away and sellers remain very aggressive. Until that changes there is no chance for a meaningful rally. Unfortunately, in spite of the recent devastating losses, many technical techniques project even lower prices to come.

The S&P 1500 (169.37) was down 6.781% Wednesday, the second session in a row with an over 6% drop. Average price per share was down 6.71%. Volume was 150% of its 10-day average and 142% of its 30-day average. 6.03% of the S&P 1500 stocks were up on the day, with up volume at 6.74% and up points at 1.78%. Up Dollars was just above 0.0% of total dollars, and was 1/3 of 1% of its 10-day moving average while Down Dollars was 196% of its 10-day moving average. The index is down 22.85% month-to-date, down 36.32% quarter-to-date, down 48.89% year-to-date, and down 52.47% from the peak of 356.38 on 10/11/07. Average price per share is $19.11, down 55.79% from the peak of $43.23 on 6/4/2007.

The Put/Call Ratio was 1.327. The Kaufman Options Indicator was 0.97. *The spread between the reported earnings yield and 10-year bond yield is 98.05% and 222.91% based on projected earnings. These are unheard of levels*.

Reported aggregate earnings for the S&P 1500 peaked in August 2007 at $19.18 and are now at $10.55, a drop of 44.99%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $17.19, a drop of only 21.69%. Analysts have obviously been very late in lowering estimates, and have also been way too optimistic. *If investors had any confidence in current earnings estimates stocks would be much higher than they currently are.*

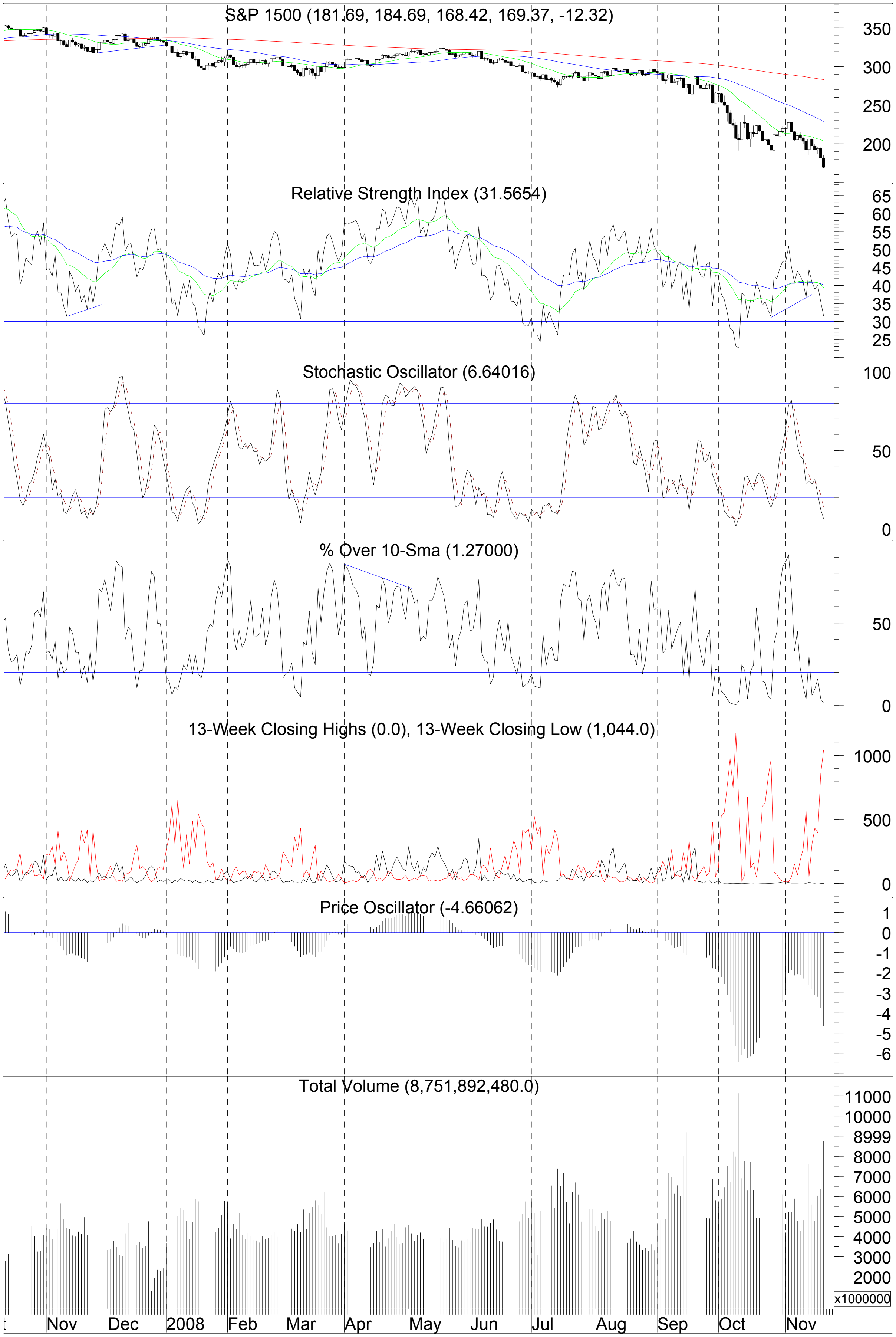
479 companies in the S&P 500 have reported third quarter earnings. According to Bloomberg, 58.1% have had positive surprises, 9.4% have been in line, and 32.5% have been negative. The year-over-year change has been -18.4% on a share-weighted basis, +5.3% market cap-weighted, and -1.7% non-weighted. Ex-financial stocks these numbers are 10.7%, 24.0%, and 17.4%, respectively.

Federal Funds futures are pricing in an 68.0% probability that the Fed will *cut rates 50 basis points to 0.50%,* and a 32.0% probability of *cutting75 basis points to 0.25%* when they meet on December 16th. They are pricing in a 65.8% probability that the Fed will *cut rates 50 basis points to 0.50%* on January 28th, and a 30.1% probability of *cutting 75 basis points to 0.25%.*
The short, intermediate and long-term trends are down. We reiterate that this continues to be an opportunistic trader's market, with adept traders able to take advantage long or short, but the primary downtrend must be respected.

IMPORTANT DISCLOSURES

The S&P 1500 plunged again Thursday to levels last seen in May 1997. Some technical techniques project even lower prices. For example, a basic channel projection would target the 155 - 160 area, another 5% to 8% lower. Of course, with indicators so oversold and valuations based on certain methods at extreme levels, a short-covering rally can take place at any time.

S&P 1500 Analysis - Wayne S. Kaufman, CMT



Our oscillators are at or near oversold levels once again.

The percent over 10-sma remains deep in the oversold zone.

New lows have exploded higher.

Our price oscillator is moving deeper into negative territory.

Volume expanded to more than 40% of its recent average.

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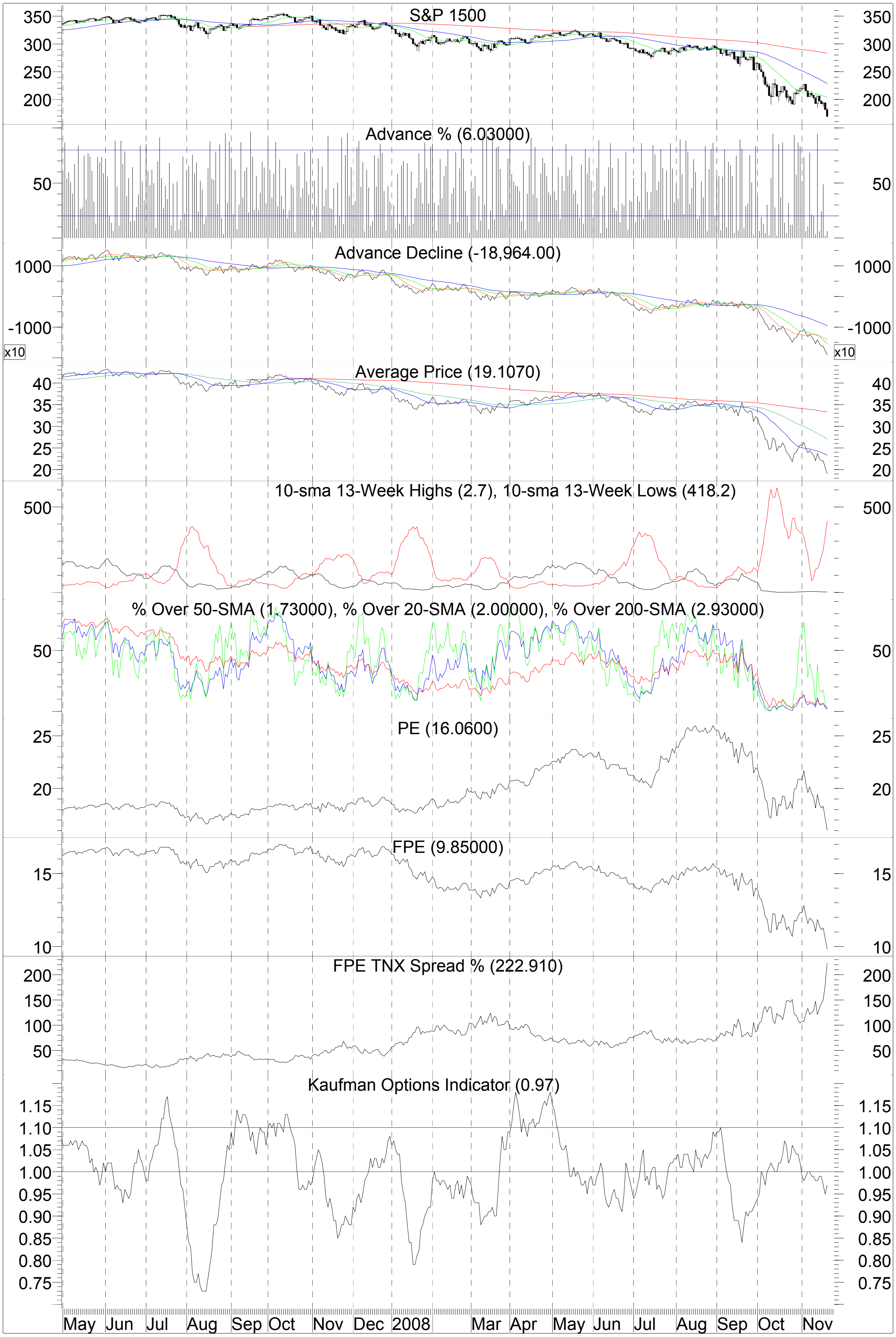

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6.03% of stocks traded higher Thursday.

All of our statistics of market internals made new lows Thursday.

These percentages remain at extremely low levels.

P/E ratios have dropped to new lows.

Spreads between equity and bond yields have reached unheard of levels.

Our proprietary options indicator is showing some pessimism, but not the levels seen at prior bottoms.